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SIPDIS

STATE EB/IFD/OMA:L. GALLAGHER
TREASURY FOR OASIA/MDM:J. FRANCO

E.O 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EAID](#) [CE](#)

SUBJECT: SRI LANKA TRANSPARENCY OF BUDGETS/MILITARY
SPENDING

Ref: STATE 239929

[1](#)1. POST RESPONSE TO REFTEL FOLLOWS:

[1](#)A. General Overview of Auditing Procedures:

[1](#)2. In Sri Lanka, the Auditor General (AG), a civilian authority, audits military expenditures as well as expenditure of all other government agencies. The Constitution provides for the appointment of the AG by the President. The AG has assigned audit units to the three armed forces and the Ministry of Defense. They carry out an annual audit of each department supported by a continuous audit process.

[1](#)3. The audits are performed according to guidelines established by the Auditor General's Department and the Treasury (including Financial Regulations of the Government). There are no special audit frameworks for military audits. Audit reports (i.e. performance audit reports) for the armed forces and the defense ministry are sent to the legislature (Parliament). They are not published for public scrutiny although audit reports for government agencies are required to be published (Mano, what does this mean? Please clarify - are they not published due to lack of resources or simply a failure to fulfill their obligations?). The Public Accounts Committee (PAC), a standing committee of the Parliament, reviews the accounts and can call the armed forces chiefs and the Defense Secretary for discussions. PAC deliberations are not open to the public. More detailed confidential management reports are sent to the Secretary to the Ministry of Defense (a civilian) and the heads of the three armed forces. PAC can call for Management reports prepared by the Auditor General's Department.

[1](#)4. The World Bank's Country financial accountability assessment study for Sri Lanka (published in 2003) found public audit (in general) in Sri Lanka to be weak and identified quality, relevance, and timeliness of audit information as areas needing improvement. The study also stated that defense expenditures were exempted from audit in the recent past by invoking a special provision in the Government Financial Regulation citing national security interests and Auditor General was denied access to records. We understand that audits were carried out, but certain expenditures were not audited. (see para B. below)

[1](#)B. The Military Budget and On-Budget and Off-Budget Revenues and Expenses

[1](#)5. The Government of Sri Lanka's defense budget includes the budgets of the three armed forces (Army, Navy and Air Force). Police are under the budget of the Ministry of Public Security, Law and Order.

[1](#)6. The Financial Regulations of the Government allows the President to approve "secret payments" in the interest of national security. The Auditor General does not audit these payments and has to rely on a certification by the President and Finance Minister. Sources at the Sri Lanka Chapter of the Transparency International see this and the provision for single source procurement in the armed forces, which are not examined meaningfully by the Auditor General's Department, as key weaknesses in the auditing process of military budgets. Further confirming shortcomings in military accountability, in 2002, the Government had to meet several unbudgeted (unaccounted) defense bills incurred in previous years (under another regime).

[1](#)C. Military Component of the National Budget

[1](#)7. The military component of the Government of Sri Lanka budget continues to hold a very important position and accounts for a substantial portion of

government expenditure, due to the civil war in Sri Lanka. Following the 2002 ceasefire agreement between the Liberation Tigers for Tamil Ealam (LTTE) and the Government of Sri Lanka, the war situation has eased and the Government has been able to reign in military spending to some extent. However, as the LTTE has not yet given up arms and territory and not fully given up terrorist activities the Government continues to allocate large sums for defense and has not demobilized combatants. The defense expenditure accounts for 10 percent of total government expenditure (2005 proposed) or about 2.48% of GDP. A parliamentary debate of the defense expenditure takes place following the annual budget presentation.

Lunstead